

**TOWN OF DAVIE
WORKSHOP MEETING
SEPTEMBER 15, 2003**

The meeting was called to order at 5:49 p.m. Present were Mayor Truex, Vice-Mayor Starkey and Councilmember Hubert with Councilmembers Crowley and Paul absent. Also present were Town Administrator Willi, Town Attorney Kiar, and Assistant Town Clerk McDaniel recording the meeting.

Vice-Mayor Starkey stated that the reason for calling this workshop was to inform new Council on what the risk companies provide to the Town. Risk Manager Dan Lutzke indicated that there was a two-year contract with a one-year renewal. Vice-Mayor Starkey stated that the notification was due September 30, 2003 and that she did not vote for the continuation of the Town's current insurance program as she felt that the risk pool should be a greater risk pool.

Michael Madden, Director of the Public Services Division of the Florida League of Cities, provided a summary overview of the Florida Municipal Insurance Trust (FMIT). He introduced Chuck Wilde, Account Executive; Bruce Johnson, Attorney representing the Trust in Southeast Florida; and two trustees, Sam Ferreri and Frank Ortis.

Mr. Madden stated that FMIT had been insuring cities since 1978 and was administered and sponsored by the Florida League of Cities. He advised that they were a full-service provider, providing claim services, marketing, underwriting, loss control and fraudulence coverage. FMIT provided workers compensation, property and auto liability, health insurance, dental insurance and short-term disability. FMIT were a risk-sharing pool, but non-accessible. Mr. Madden added that FMIT had insured the Town for the last 25 years.

Mr. Madden explained the difference between a claims made policy and an occurrence policy. He stated that the Florida League of Cities provided an occurrence policy and as long as the occurrence happened during the insured period, it did not matter when the claim was filed. Mr. Madden added that the deductibles only applied to judgments and not defense costs. The League provided a \$1 million limit for inverse condemnation claims, there were no windstorm deductibles, they provide terrorist acts and mole coverage, and quarterly payment plans. The League provided seminars throughout the state, annual conferences and training information, at no additional cost.

Mr. Madden stated that he compared last year's premium quoted of \$1,824,000, and the most the Town ever paid in deductible payments in any one year was \$265,000. He pointed out the fact that several municipalities had left SERMA and FERMA to join the League. Mr. Madden recommended that Council use an independent consultant to look at competitive bids.

Sam Ferreri, Mayor of Greenacres, stated that insurance was a major part of the budget and Greenacres decided not to continue with the risk pool and had joined the League. He stated that when they left the pool, primarily because of unfair assessments, they ended up being sued by the pool. Mayor Ferreri stated that the Florida League of Cities only required a 45-day notice to go out to bid for all or a portion of the contract. He spoke highly of the League's defense litigation team and encouraged Council to look at the big picture. Mayor Ferreri stated that the trustees were well educated on insurance matters and there were opportunities to become trustees. He indicated that there would be risks to the tail when leaving a program and encouraged Council to make sure there was adequate coverage for the tail when breaking with an insurance company.

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Mayor Truex asked Mr. Madden for suggestions on handling the tail. Mr. Madden stated that they were not willing to insure outstanding claims at no premium. He stated that the Town would have to continue to pay the pool, along with administering and paying out the open claims with Town funds, but that the League would be willing to help with claims administration "run off".

Chuck Devida, President and Chief Executive Officer of Employers Mutual Inc., third party administrator for SERMA, provided a summary overview of SERMA. He advised that SERMA was established in 1994 to serve Florida municipalities and he verified that it was not a merger of other pools. SERMA currently had six members and was governed by each member. Mr. Devida stated that SERMA offered coverages such as workers compensation, property and liability. He indicated that SERMA was a financially sound and stable organization and was guided by conservative management practices. Mr. Devida stated that over half of the Town's exposure had been in worker's compensation claims. He stated that SERMA was a risk sharing pool and managed and diversified its risk through excess of loss reinsurance. Mr. Devida stated that SERMA provided property insurance and flood insurance and stated that SERMA paid the flood policy premiums for Zone A.

Mr. Devida stated that SERMA had an integrated claims management strategy in that they worked closely with customers and risk managers to make decisions such as defense counsel. SERMA provided onsite claim reviews, accident investigations and attended all mediations. They gave extensive management reporting analyses and provided web-based tools to help the Town better understand claims. They provided financial services for the pool, including administration of the fund accounts and all financial reporting responsibilities.

Mr. Devida stated that SERMA was a financially sound program with capital investments of \$5.1 million, indicating 133% of carried reserves. He stated that SERMA had very conservative investment management practices in that they do not invest in the stock market. SERMA had conservative asset recognition practices in that they did not record receivables until they were received. Mr. Devida stated that SERMA's contributions for its current members had grown 6% annually and that SERMA had exceeded their income by 76% with a loss ratio of 52%. He added that 98% of claims that were three years or older were closed. Mr. Devida stated that although SERMA was smaller than FMIT, smaller was not necessarily worse and urged Council to focus on the program that provided the best service.

Mayor Truex asked Mr. Devida how the tail would be addressed if the Town left SERMA. Mr. Devida stated that worker's compensation was an occurrence-based policy and the claim would stay and be paid by SERMA. He stated that the Town's contributions were largely based on the Town's claims history and results, such as payroll and loss experience.

Mayor Truex asked what would happen if the claim was not filed for two or three years. Mr. Devida advised that if a worker was injured and received medical treatment, there was little chance that the claim would not immediately be reported to SERMA.

Mr. Devida was asked to explain EMI. He stated that it was a subsidiary of FPIC insurance group and that SERMA was a third-party administrator. SERMA had 20 years of experience serving public entities, serving risk pools and serving self-insureds.

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Mr. Lutzke stated that he had over 25 years of experience in risk management and provided a handout of his qualifications to Council.

Mayor Truex asked Mr. Lutzke if the consultant had recommended the FMIT in 2002. Mr. Lutzke stated that in early 2001, the Town contracted with Marsh to do a financial review of the League. The League's preliminary report had many questions they could not provide answers for. He stated that prior to renewal, the League answered the questions and the final report was better than the preliminary report. However, the final report came in almost six months after renewal was due. Mr. Lutzke indicated that upon his employment with the Town, he signed a renewal agreement for the past October to renew the plan. In 2002, Marsh recommended that the Town bid out for property casualty insurance coverage.

Mayor Truex asked who the consultant was that recommended FMIT. Mr. Madden stated that on May 11, 2001, Marsh performed a study and recommended renewal for 2001-2002. The League had responded to the delinquent response of FMIT and added that he had provided answers to former Budget and Finance Director Chris Wallace less than 30 days after receiving the request.

Mr. Lutzke advised that the tails of coverage existed and that premiums with the League and SERMA would be quoted based on most projected losses. He stated that with regard to worker's compensation claims, the cost to the Town was usually known in the plan year; however, if it was a larger case, the cost would be several years later. He stated that general liability was not usually known in the plan year. SERMA's policies were made on an occurrence basis and the Town could be stuck if they decide to change. Mr. Lutzke stated that the Town was not "in that boat" now or when it was with the League.

Mr. Lutzke referred to his handout stating that this current fiscal year, the Town had paid \$192,916 in worker's compensation deductibles for last fiscal year. He stated that during the last plan year under the League, the Town was quoted \$1,519,522 and it had paid \$1,920,862 or \$476,000 more than was quoted.

Mayor Truex asked if that was because the Town did not have accurate information. Vice-Mayor Starkey stated that she felt the increase was because of the amount covered for certain properties such as Robbins Lodge being underinsured and it was decided that the Town would audit and appraise the appropriate values and insure that value. Mr. Lutzke indicated in the negative. He stated that the appraisal was done in March and the results were provided in June that dropped the value from \$28 million to \$19,846,000. Mr. Lutzke indicated that the appraisal was grossly wrong and that the property was valued at \$38 million. He stated that SERMA did not penalize the Town for underinsuring the property when they could have. Mr. Lutzke read a letter from the League which stated that as the Town chose to go with another insurance company, the Trust no longer had any responsibility in assisting the Town with the property appraisal. He added that after negotiations, the Town received a \$51,000 recovery. Mr. Lutzke indicated that there was a full re-appraisal done on 13 properties within the Town that had decreased in value.

Mr. Lutzke stated that the League quoted \$1,826,000 with a \$25,000 per incident deductible for worker's compensation and an aggregate stop loss of \$1,080,000. Applying percentages to the prior plan year, he had calculated that the actual cost would be \$2,401,174 or

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\$575,000 over what they had quoted. SERMA quoted \$1,185,000, their actual cost was \$2,185,000 and worst-case scenario would be \$2,185,000. The actual savings this year over the League's quote would be approximately \$216,174. He stated that the worst-case scenario compared to the aggregate stop loss would be a \$947,109 savings over the League's quote.

Mr. Lutzke stated that SERMA was far easier to work with than the League and that the TPA was upfront with information and communication. He felt that FMIT's administrators provided no base of communications with the Town's Risk Manager and preferred to conduct business with Council. Mr. Lutzke stated that SERMA quoted an annual contribution that was fixed and stated that with FMIT, you had to guess what the annual costs might be. He added that SERMA had a solid foundation that was protected with layers of excess insurance and assets while FMIT's reserves continue to dwindle.

Mr. Lutzke stated that with SERMA, the Town could designate any law firm to handle claims while the League designated the law firm. He stated that 10% of the League's members left every year and stated that the Town currently had a good program and staff and would continue to evaluate the program every year to constantly try to improve.

Mayor Truex asked if there was a deadline pending if the Town wanted to change carriers. Mr. Lutzke stated that a letter went to SERMA in August advising that the Town was going out to bid in early 2004 and stated that if SERMA was not the successful bidder, the Town would be leaving in October 2004. Human Resources Director Mark Alan stated that it was standard practice to allow flexibility. Mr. Lutzke indicated that SERMA required a one-year notice and stated that one year was more of an accommodation to the other members.

Mayor Truex asked what the options were and whether the Town should stay with SERMA or go out to bid. Mr. Lutzke indicated that the Town could do either. Mayor Truex asked what the cost would be in going out to bid. Mr. Lutzke stated that the only cost would be time and effort and that there would be no financial cost involved. Mr. Alan stated that if a broker of record was needed, there might be a cost if the broker brought in a successful bidder. Mayor Truex asked Mr. Lutzke for staff's suggestion. Mr. Lutzke stated that he liked the status quo.

Councilmember Hubert asked if Marsh was the largest insurance company, why the Town did not go with them. Mr. Lutzke stated that they own insurance companies, but they were the largest broker agent.

Vice-Mayor Starkey asked if the Town had stayed with the League, would the policy have continued and Marsh not made any commission. Mr. Lutzke indicated in the affirmative, but stated that Marsh did not make a commission as SERMA was not a private insurance company. Vice-Mayor Starkey asked if the Town went out to bid, would it cost the Town anything. Mr. Lutzke indicated in the negative. Vice-Mayor Starkey questioned if staff recommended not going out to bid and if so, what were the advantages of going out to bid and was there the potential for a lesser premium. Mr. Lutzke stated that Marsh could not get anyone to bid on the liability or the worker's compensation. Mr. Alan indicated that Marsh had obvious motivation to find business as they would receive commission and were unable to find anyone.

Mayor Truex asked Council if there was any interest in discussing this item at a Council meeting and going out to bid. Councilmember Hubert stated that if the Town currently had a

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good policy, she did not see the need for change. Mayor Truex advised that he would like to vote on the issue. Vice-Mayor Starkey stated that she would like Councilmembers Crowley and Paul to provide their input.

Mr. Willi suggested that the Town try to schedule for rebid around a new budget to include new pricing into the next fiscal year operating budget. He stated that if the Town went out to bid now, the Town missed the market because there were not a lot of outside entities bidding at the same time. Mr. Lutzke advised that it was not suggested to bid a year in advance. Mr. Willi stated that he would like to get an early start and get it wrapped up by October.

Vice-Mayor Starkey clarified that the Town was obligated by contract to continue with the current program, but that it would be determined now to go out for bid the following year. Mr. Lutzke stated that SERMA had already been noticed. Mr. Alan stated that there was no deadline to meet by a certain time and that the only timeframe would be to make a decision in time for staff to put together and go through the process of bid. Mr. Lutzke stated that the Town would not issue the bid until approximately February.

Mayor Truex stated that he would like to see the issue put on for discussion within the next few meetings.

Vice-Mayor Starkey stated that her main concern was the September 30th deadline, but that it had been addressed.

Mr. Kiar questioned Mr. Lutzke regarding the defense firms and whether SERMA allowed the Town to retain the law firm. Mr. Lutzke stated that that was acceptable as long as the Town retained a qualified firm.

There being no further business to discuss and no objections, the meeting adjourned at 7:28 p.m.

Approved: _____

Mayor/Councilmember

Town Clerk

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